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ABSTRACT

Rural areas contain 25 percent of the nation's population and 60 percent of its substandard housing, a fact primarily attributable to maldistribution of income, geographic distribution, and racial discrimination. Federal intervention in housing has been largely indirect and to the benefit of upper income groups, with tax subsidies accounting for two-thirds of all subsidy costs. Benefits from direct subsidies are about evenly split between low and moderate income groups, though the latter accounts for a rapidly increasing share. Federal intervention has sought to expand private business operations but has not offset the deficiencies of that sector, failing to eliminate patterns of racial discrimination and possibly intensifying patterns of geographic distortions. If adequate housing is to be provided for rural areas, major reforms must be made in Federal housing policy and should include creation of: (1) a comprehensive national housing program; (2) a department of rural affairs; (3) an emergency rural housing administration; (4) a local housing delivery system; (5) a rural housing development bank; (6) a Federal capital budget which makes distinctions between wealth producing and nonproducing endeavors; and (7) a finance and subsidy arrangement that covers cost of: new and rebuilt housing, maintenance, operation (to include insurance and utilities), and taxes. (JC)

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Rural Housing-
Need and Non-Response

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old and new.

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RURAL HOUSING - NEED AND NON-RESPONSE

Rural areas (non-metropolitan areas) have about one-fourth of the nation's population and 60 percent of its substandard housing.

We have a national housing crisis, but that crisis is usually couched in terms of falling production, high interest rates, unsold houses, unemployed workers, bankrupt contractors. Certainly those are problems. But those problems are only the immediate manifestations of the fact that this nation's housing policies leave a great deal to be desired, and that the rural housing program is the worst part of the picture.

A BRIEF SUMMARY OF THE FACTS BEHIND OUR FAILURE TO HOUSE PEOPLE DECENTLY, PARTICULARLY IN SMALL TOWNS AND RURAL AREAS:

(1) Maldistribution of income: Poor people are the people most likely to live in poor housing. Less than 5 percent of households with incomes between $7,000 and $10,000 live in housing without plumbing or which is severely over-crowded; more than 15 percent of those with incomes of less than $4,000 lacked decent housing. 1/ Thus it is an accepted fact that poor housing usually reflects low incomes, and it is for this reason that most governmental housing programs are an attempt to reduce the effects of the maldistribution of income.

The disproportionate size of the housing need in rural and small town America is in part the result of the fact that there is a higher percentage of poverty there.

(2) Geographic Distribution: Beyond income, however, there is a clear relationship between geography and decent housing. Here we have in mind not only the differences from one region of the country to another, but the difference between rural areas and small towns and the nation's more urbanized communities. For families in the $4,000 to $7,000 income bracket living in metropolitan areas, the incidence of housing lacking plumbing or severely overcrowded was just over 6 percent; for families in the same income living in non-metropolitan areas, the incidence was nearly 14 percent. This disparity is characteristic of every region in the country. 2/

1/ For summary national statistics see "Income and Housing," Low-Income Housing Bulletin, February 1973, pp. 3-4.

2/ See, for example, estimates in OEO and Rural Housing, Table 1.2, pp. 16-17.

The reasons behind this disparity and the general failure to establish an effective rural housing program reflect both differing states of social organization and mental attitudes. Housing credit institutions are primarily metropolitan both in location and orientation. Private housing enterprise (euphemistically, "the private market") in non-metro U.S. functions even more poorly than in the cities in meeting the needs of low and moderate income people. The housing assistance programs were written and lobbied through the Congress by various parts of the private system and by public officials whose eyes were on the cities. 1/ Citizens in non-metro America are not organized as well to "hustle" the system as city people are.

Consequently, where the private market does not satisfy housing need in non-metro America, neither do public programs function very effectively. At its recent peak, Federally-assisted housing output in non-metro areas approximated only 34 percent of need while in the cities it was approximating nearly 53 percent of need. 2/

(3) Racial Discrimination: Another obvious reason for poor housing is racial discrimination. In non-metro areas, 49 percent of Black families with incomes between $4,000-$6,000 occupied housing lacking plumbing and/or was severely overcrowded; but only 12 percent of non-Black families in the same income category lived in that kind of housing. 3/ Thus, the third major aspect of need for public intervention is to secure racial equality and the integration essential to that equality.

WHAT HAS THE RESPONSE BEEN?

The response to housing need has obviously been inadequate.

1/ Psychologically, this country suffers from what we call "metropollyanna". Metropollyanna is a state of mind, basically an unspoken belief or assumption that sooner or later nearly everybody will move to the cities and live happily ever after; therefore it is not necessary to do much, if anything, for small town and rural people.

2/ OEO and Rural Housing, Table 1.6, p. 3. Even if one wishes to argue with our estimated level of real need, the metro/non-metro disparity is evident.

3/ This disparity is not, of course, limited to non-metropolitan areas. In metropolitan areas, 12 percent of Black families in that income category occupied housing lacking plumbing or severely overcrowded, compared with 5 percent of the non-Black families in the same income group.

SUBSIDIZING THE RICH

The oldest and largest Federal housing subsidy is provided indirectly through the income tax system, by allowing the deduction of mortgage interest payments and property taxes. 1/ This subsidy is 60 years old, and is grimly inequitable. The size of the subsidy increases with the family's income. In 1973 the cost to the Treasury was $7.9 billion and for FY 1976 will probably reach $11 billion. The cost of the subsidy to the government per family of those with less than $3,000 a year averaged $23; for the family with $100,000 or more income, the cost was $2,449. 2/

FHA MORTGAGE INSURANCE - HUD

This is the oldest of the Federal mortgage insurance programs, designed to make credit available by taking the risk out of it for the private investor. Eighty to 90 percent of the units covered by FHA are consistently inside SMSA's. 3/ Racial minorities fail to benefit from the program in fair proportion to their numbers. 4/

1/ To question (as Secretary Lynn did recently) the appropriateness of terming this a "subsidy" seems to us disingenuous at best. Under this provision of the tax law, we in effect tell citizens: 'If you will buy your housing instead of renting it, we will reduce your tax bill somewhat, thereby giving you more money to spend on your housing or on other things.' Under Sec. 235 of the National Housing Act, we tell citizens: 'If you will buy housing under this specific program, we will reduce your interest bill somewhat, thereby giving you more money to spend on housing or on other things.' The only discernible differences are that the former appears in a different part of the code, applies to everyone rather than only to those with limited incomes (indeed, favors most those with the most income), and reduces their tax payment instead of reducing their interest payment. These differences certainly distinguish the mechanisms involved--we don't see that they change the character of what is being done.

2/ Weekly Congressional Round-Up No. 4, Rural Housing Information Service, February 21, 1975, p. 6.

3/ Figures for the most recent decade appear in the 1971 HUD Statistical Yearbook, Table 173, p. 171.

4/ A HUD survey covering subdivision development in the mid-1960's was reported by the U.S. Civil Rights Commission (in Federal Civil Rights Enforcement Effort) to show less than 4 percent of the units covered by FHA insurance going to Blacks, though the latter constitute 11 percent of the population.

PUBLIC HOUSING

The earliest recognition that direct Federal action was required to meet lower income housing needs was the public housing program, enacted in 1937. For many years all the Federal government did was pay the capital costs of housing. In those years it could not have been expected to serve the poorest people in poor rural communities because the local communities could not afford the additional subsidies. It was only after the cities began to bog down in the financial mud after the white flight to the suburbs and the sharp increase in interest costs that an additional Federal subsidy was granted to cover part of operating costs.

Judged only in terms of the incomes of people served, public housing has been the most effective Federal program, approached only by the rent supplement program coupled with interest credits (subsidies). 1/ But public housing did not go where the need was. In non-metro areas with 44 percent of the poor households, only 22 percent of the public housing is located. Over thirty years after the program started, it had not even been used in nearly half the nation's counties containing nearly a fifth of the population. 2/ The program's failure in furthering racial equality and integration was nearly total. Blacks constitute 30 percent of the poverty population but less than half of the tenant families in public housing are black.

FARMERS HOME ADMINISTRATION - Housing Program

The Housing Act of 1949 provided the first recognition of the need for special attention to the shelter of rural people. Title V of that Act authorized the Farmers Home Administration (FmHA) to make direct loans, but for farm housing only. In the 1960's this authority was expanded to include non-farm rural housing where the borrower could prove he could not get the credit elsewhere. In addition to filling part of the credit gap with Federal funds, FmHA has also served an essential outreach function (for which HUD's FHA has to depend on real estate agents,

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1/ See the average incomes of families moving in during 1972 for various programs presented by HUD to the House Appropriations Committee in that year's hearings, cited in Cushing Dolbeare's Federal Tax Rip-Offs: Housing Subsidies for the Rich, Table 1, p. 4B.

2/ Rural Housing Alliance and Housing Assistance Council, Public Housing: Where It Is and Isn't.

builders, and lenders.) This has meant, among other things, savings of 10-15 percent on the cost of housing to borrowers. 1/

As long as FmHA was lending Treasury funds, Congress and the President held its housing program to a minimum. Only after the private lenders were cut in through insured loans did the program expand, but despite the increased cost to the taxpayer, FmHA continues to function (to the borrower) as though it were making direct loans, giving it a unique and indispensable role in rural housing. This expensive game playing with "insured" loans is more a result of the absence of a capital budget than anything else, for it is this old gimmick which enables the vested interests to highjack the housing borrower and/or the Federal taxpayer.

For years FmHA made loans to low and moderate, as well as "above moderate" income families, but President Nixon wiped out the above moderate loan program his first year in office without a whimper from Congress. As a result, coal miners in the expanding mines in West Virginia, making $15,000 a year cannot get credit for any kind of a home except a trailer shack because they are "above income".

For many rural people, the principal defect of FmHA is that the Congress refuses to give the agency administrative funds enough to carry out its responsibilities, and, more often than not, when Congress fattens the till a little, Presidents Nixon and Ford have impounded the money, directly or through personnel ceilings. 2/

The struggle of rural people to get a decent source of housing credit has been long and frustrating. First, FmHA was permitted to loan money only to farmers; then it was permitted to lend only in towns up to 2,500 people; later this was raised to 5,000; then to 10,000 and finally (currently) to 20,000. Even so, it is apparent that as long as the Congress and the President starve the agency for administrative funds it will not only fail to carry out its housing program adequately, but it is apparent that the housing program is bleeding some of its other programs white, including the supervised farm credit program, vital to holding the door open to small farmers.

1/ With increasing pressure of program levels and restricted funding for administrative staff, FmHA has, in recent years, been forced into increased reliance or the builders and has come to copy FHA in significant ways. However, its program structure has retained the direct contact between consumer and federal staff.

2/ Currently FmHA is refusing to carry out laws passed in 1974 by the Congress partly on grounds that it is understaffed--which it certainly is. Blessed are the uses of adversity, however, because this permits FmHA to refuse to implement items like the rent supplements program, which one of its key people damned as "a welfare program we don't want no part of..."

In later years FmHA's authority was extended to cover grants and loans to self help housing groups; to make up to 90 percent grants for farm labor housing. These changes came during the Nixon/Ford administration and the administration has fought them with every tool at hand, impoundment, restrictive guidelines, unfriendly credit clearance neglect....

FmHA also has had Section 504 for many years which authorized the lending and granting of funds to low income families for repair and modernization. The loan program has fallen into reduced usage, despite steady improvements in the law. The grant program has been suspended each year since 1964 by language included in the annual appropriations act by the Chairman of the House Subcommittee on Agricultural Appropriations, Jamie Whitten, which precludes the use of any of the administration money to administer the grant program. HUD continued to have grant funds available for metro areas.

TAX SHELTERS

With extension, in the mid-1950's, of accelerated depreciation to real estate investment, yet another feature of indirect intervention on the housing market appeared. Once again, it was an intervention keyed to the private sector's inadequacies. Its cost is substantial ($275 million a year) according to the Joint Economic Committee's estimates 1/, and it is highly regressive in its impact (with 70% of the tax saving going to the top 5 percent of the taxpayers). 2/

INTEREST SUBSIDIES FOR MODERATE-INCOME FAMILIES

In the late 1950's, Congress began to extend help to "moderate-income" households - those with incomes too high to be served by the direct assistance of public housing, but inadequate to achieve housing on the private market.

These interest subsidy programs have played a major role in stimulating housing production and in making available improved housing at lower cost to families (but not the taxpayer).

Criticism that the programs have not served the poor is unfair -- they were not supposed to. 3/ The limited scale at which they operate results in a "lottery" effect. This is compounded in the case of FHA programs by the fact that a family

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1/ Joint Economic Committee, The Economics of Federal Subsidy Programs, Staff Study, p. 152.

2/ See "Real Estate Tax Shelters: A Builder's Blast", Low-Income Housing Bulletin, April 1973, p. 2.

3/ Whether these moderate-income assistance programs have been given undue emphasis at the expense of the low-income programs is another question.

need only qualify on income grounds, it need not demonstrate that its current housing is inadequate. Farmers Home Administration programs are superior on this count, since they are limited to those who can demonstrate the need for assistance to secure adequate housing (not a requirement under Sec. 235).

This is another program which depends on the private market mechanism reducing the ability to achieve geographical equity. As the GAO has noted 1/, the Northeast region received only 11 percent of the 235/236 units in the first few years of the program, though that region accounted for 18 percent of the housing which either lacked plumbing or was overcrowded (or both) 2/. On the other hand, the West, with only 14 percent of the inadequate housing, accounted for 20 percent of the 235/236 units. Farmers Home Administration programs did not reflect the same regional mismatch. 3/ This is indirect evidence of the relative advantages of FmHA's program structure. Even more striking than the regional imbalance reflected in FHA's interest-subsidy program is its failure to serve those in rural areas and small towns. HUD reports only 15 percent of its Sec. 236 units going to nonmetropolitan areas. 4/ The proportion of Sec. 235 units in such areas is probably even lower.

Finally, using private business as middlemen carries other problems. The scandals in FHA programs are testimony to the need for consumer counseling and consumer protection through adequate inspection and appraisal. 5/

1/ Opportunities to Improve Effectiveness and Reduce Costs of Homeownership Assistance Programs, Report B-171630, Appendix I, p. 59.

2/ We have used Census data on housing need rather than the HUD estimates used by GAO for its comparison.

3/ The GAO compared FmHA program levels with rural population. We have, as we did for HUD programs, compared it with Census data on housing need in places of less than 10,000 population (as tabulated in Economic Research Service Statistical Bulletin 492, Housing Conditions in Areas Served by Farmers Home Administration Programs, Table 5). At least regionally, the distribution of program levels did not vary more than 1 percent from the distribution of need.

4/ See 1970 HUD Statistical Yearbook, Table 174, p. 165 (this breakdown seems to have been dropped by the 1971 edition).

5/ Which FmHA provides as a public service to its borrowers.

RENT SUPPLEMENTS

In the mid-1960's, Congress added a new mechanism for low-income assistance; rent supplements. 1/ From the standpoint of rural areas and small towns, rent supplements had a special disadvantage; they are limited to housing insured by FHA, FmHA having no comparable authority to subsidize rental housing for low-income families until it was added in the 1974 Act. In reality FmHA still does not have such authority since the Administration has stated it does not intend to implement the new authority. 2/

HUD rent supplements are less concentrated in metropolitan areas than the Sec. 236 program, but more than 61 percent of all rent supplement units are to be found in such areas. Regional disparities are substantial also; five states account for nearly 40 percent of all rent supplement units. 3/

SUMMARY:

To summarize, Federal intervention in housing has been largely indirect and largely for the benefit of upper income groups, with tax subsidies accounting for two-thirds of all subsidy costs (and this fails to count the cost of tax-exempt interest on public housing bonds). Benefits from the direct subsidies are about evenly split between low-income and moderate-income groups, though the latter accounts for a rapidly increasing share. 4/ Most intervention, both direct and indirect, has sought to expand the operations of private business. They have therefore failed to adequately offset the deficiencies of that sector, and instead have perpetuated (possibly even intensified) patterns of geographic distortions such as that between rural and small town areas and metropolitan America, while doing little to eliminate patterns of racial discrimination.

1/ Ironically, it was initially proposed by the Administration as a moderate-income program.

2/ The only FmHA program with a deep subsidy is its small farm labor housing program; and even here, only 90 percent of capital costs can be covered -- less than in public housing or rent supplements. For a discussion of the special housing needs of farm labor and of program recommendations, see Lee Reno, Pieces and Scraps.

3/ See "The Geography of Rent Supplements", Low-Income Housing Bulletin, November 1972, p. 2. The five states are California, Florida, New York, Ohio and Texas.

4/ Henry Aaron, "Federal Housing Subsidies", The Economics of Federal Subsidy Programs, Part 5 - Housing Subsidies, Tables 3-5.

BASIC PRINCIPLES

1. Housing People Is Expensive -- This nation, particularly the President and the Congress, should face up to the fact that there is no costless way to solve the housing problem. That nauseously repeated goal of the Housing Act of 1949, nearly 25 years later, smells to high heaven and affects socially sensitive people like a rusty blade cutting living flesh.

If we are truly serious about providing decent housing to all at a reasonable share of income, we will either have to redistribute income in a major way 1/ or prepare to provide $7 to $10 billion a year in subsidies. 2/ In a full-employment economy with a tax structure more attuned to ability to pay, this would not be an unbearable burden by any manner of means. 3/ If our real intent is less than our rhetorical flourish, the price is still substantial. We would guess that merely providing adequate housing for all those in towns of less than 25,000 population who are currently living in units which lack plumbing, are severely overcrowded, or both, would require a capital investment in the neighborhood of $20 billion (up to half of which may be recoverable), plus continuing annual subsidies of $1 or $2 billion. (This is far less than we are used to paying for the space program. The oil depletion racket costs the Treasury $3 billion a year.)

2. Citizens' Rights Are National -- Where local or state governments fail to act, the Federal government must intervene, both to provide housing and to protect civil rights. It is no accident that the housing conditions of rural Blacks and other minority Americans are shockingly worse than those of whites: It is the direct result of centuries of discrimination. We call for an end to Federal laws and policies, including local government approvals of subsidized housing, which allow unresponsive state or local governments to interpose their powers to block residents of their areas from receiving the benefits of Federal programs. Need, not the initiative or acquiescence of local government, should be the primary consideration in the distribution of housing subsidies. The Federal government must have and use the power to override local government and assume control where discrimination on the basis of income or race can be demonstrated or where it can be demonstrated that local entities are not meeting housing needs.

1/ Hardly an immediate prospect.

2/ See Cochran and Rucker, "Every American Family: Housing Need and Non-Response", Papers Submitted to the Subcommittee on Housing Panels, Vol. 2, pp. 539-40. Estimates of similar magnitude were arrived at by far more sophisticated methods by the Urban Institute. See Frank de Leeuw, "The Housing Allowance Approach", in the same compendium, pp. 541 ff.

3/ See Leon Keyserling, The Coming Crisis in Housing.

If a citizen can be taxed, policed, and drafted into the military, those responsibilities and duties must be balanced by equivalent rights to food, security and shelter. 1/

3. Reliance on Tax Gimmicks Is Undesirable -- Utilization of tax gimmicks, like limited dividend corporations, accelerated amortization and other devices is inefficient and wasteful, tends to be inequitable and misses the goal of meeting the need. The results are difficult to measure and the distribution of benefits haphazard and nearly impossible to police.

4. Federal Responsibility and Funding Should Be Joined With Maximum State and Local Citizen Participation -- We believe the basic initiative and funds for solving the housing problem must come from the Federal government, but states and local governments should be given maximum opportunity for participation, which is not the same as sabotage, road blocking, or the imposition of racially discriminatory patterns. Equally important is participation by consumers, present and potential.

5. Counselling Housing Consumers -- Counselling services should be tied as closely to existing housing or housing credit as possible. For example, FmHA has demonstrated (with regrettable exceptions) that the most workable and responsible means of providing credit and counselling is through a Federal official, located at the local level and responsible for both counselling and credit. FHA/HUD, on the contrary, has tended to counsel only the processors of consumers. The contrast is of the utmost significance.

RECOMMENDATIONS FOR REORDERING FEDERAL HOUSING POLICY

No amount of "tinkering" with the present housing system or programs will be truly effective in providing adequate housing alternatives for the submerged third to half of the nation's poor. To accomplish that, major reforms will have to be made in Federal housing policy -- reforms which effectively challenge the prevailing mythology and misconceptions to which Federal housing activity has been tied. We have summarized below a few of the more fundamental changes which appear to be essential to a meaningful attack on the problem of indecent rural housing.

1. Comprehensive National Housing Program -- We urge the establishment of a comprehensive national housing program which equitably serves the full range of housing needs and which does not leave the national purpose at the mercy of local will or capacity, or private initiative or interests. The present patchwork of Federal housing assistance programs reflects our failure to establish a comprehensive program, and results in the neglect

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1/ "A Legal Right to a Home...", Resolutions of the Second National Rural Housing Conference, November 30, 1972, p. 5, No. 8.

of millions of American families, and the enrichment of a few private interests at an unnecessary high public cost. The primary purpose of Federal policy should be to provide adequate housing assistance for all who cannot obtain safe and decent housing through the private market at a reasonable portion of their income.

2. Department of Rural Affairs -- We urge the creation of a Department of Rural Affairs, a new Federal department with responsibility for meeting rural needs, including housing, community facilities, food and nutrition, health, and other services. The new structure should be dominated neither by the agri-business interests of the Department of Agriculture nor by the metropolitan/real estate/banker/builder interests of the Department of Housing and Urban Development. We are opposed to the transfer of any rural housing responsibilities from the Farmers Home Administration to some new, super-HUD.

3. Emergency Rural Housing Administration -- As an interim measure, we urge the creation of an Emergency Rural Housing Administration with the purpose of providing minimum adequate housing, clean water, and sanitary facilities to the worst-housed of the nation's rural areas, and to do so with a 5-10 year period. The agency would be directed to ascertain the need for such housing in all areas with a population of 25,000 or less, to mobilize the resources of other agencies in developing a five-year plan for meeting those needs, and to act directly to insure that those people not being served by other agencies and programs are, in fact, served.

4. Local Housing Delivery System -- We urge the creation of an effective new housing delivery system responsive to local needs. We suggest that the successful rural electrification program provides a useful model. Local rural housing associations, chartered under state law but serving as delegates of a Federal program could serve to decentralize the basic administration of that program. Like the rural electric cooperatives, they should be controlled by those they serve -- who, after all, have the most direct interest in effective implementation of the housing program. These local agencies should also be required to enter into area responsibility agreements, so as to assure geographic and racial equity of service and to assure satisfaction of the national concern in meeting the housing needs of "every American family."

The rural electrification program was established to fill a gap left by the private sector--to offset an obvious deficiency in the market mechanism. It did so by utilizing the initiative of those most directly affected, the rural people who fell through that gap. The Federal government provided them with the necessary resources, in the form of credit and technical supervision, and it required, as a condition, that the cooperatives operate as responsibly as if they were true public bodies. Rural housing

needs reflect an obvious deficiency in the market mechanism. The logic of again tapping the initiative of those most directly affected seems to us compelling. The wisdom of again combining substantial Federal resources with the requirement to act responsibly seems to us appealing. It also offers the possibility of a housing assistance mechanism which can be fully responsive to local needs and desires without abandoning the national concern for decent housing to local will and capability.

5. Rural Housing Development -- We urge the establishment of a Rural Housing Development Bank as a central, public financing institution for rural housing and community facilities. The bank would be established by means of direct borrowing from the Treasury, with the funds to be used for the acquisition of land and construction of housing for all lower income people living in rural areas.

6. Federal Capital Budget -- Much of the waste and nonsense in Federal credit agencies derives from the system of superstition surrounding the Federal budget. We need a "truth in accounting" law for the Federal government, a capital budget that requires and permits a distinction between public expenditures for wealth producing things like housing and the cost of body servants for the military "brass", currently costing $22 million a year, 19 percent of the cost of administering the total FmHA program.

7. Financing and Subsidy Arrangements -- We urge the adoption of adequate finance and subsidy arrangements designed to bring decent housing within the means of everyone, with a choice of location and tenure. In order to satisfactorily meet the needs of lowest income families, adequate subsidies will be required to cover the following costs: (1) the cost of new or rebuilt housing; (2) the cost of adequate maintenance or rehabilitation of existing housing; (3) operating costs, including insurance and utilities; and (4) taxes.

We further urge the use of capital subsidies to provide genuine opportunities for homeownership. We recommend that this be done through enactment of a loan program which would allow that up to 50 percent of a loan be made as interest-free, nonamortized second trust, on which no payments would be made before retirement of an interest-bearing, amortized first trust.